

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes of the 7th Meeting of the 2011 Interim**

**August 16, 2011**

### **Call to Order and Roll Call**

The 7th meeting of the Capital Projects and Bond Oversight Committee was held on Tuesday, August 16, 2011, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Jim Glenn, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senator Jared Carpenter; Representatives Steven Rudy and Jim Wayne.

Guests: Donna Duncan, Commissioner, Department of Financial Incentives, Cabinet for Economic Development; John Hicks, Deputy Director, Governor's Office of Policy Management; Brian Simmons, Internal Policy Advisor, Department of Military Affairs; Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet; Kasi White, Financial Analyst, Kentucky Infrastructure Authority; and Brett Antle, Deputy Executive Director, Office of Financial Management.

LRC Staff: Kristi Culpepper and Jennifer Luttrell.

### **Approval of Minutes**

Representative Rudy made a motion to approve the minutes of the July 19, 2011, meeting. The motion was seconded by Representative Wayne and approved by voice vote.

### **Information Items**

Representative Glenn asked Kristi Culpepper, Committee Staff Administrator, to present information items. Ms. Culpepper said members' folders contained six information items. The first three items provided additional information regarding projects discussed at the July meeting: Department of Military Affairs – Construct Asphalt Team Facility Project; leases for debris storage sites from the January 2009 ice storm; and an Economic Development Bond grant for the Louisville / Jefferson County Metro Government for the benefit of AAF-McQuay Incorporated.

The fourth information item was the annual report on the Economic Development Bond program.

The fifth information item was a report on a High-Tech Investment / Construction Pool grant for Nucleus Innovation Park in Louisville, Kentucky.

The sixth information item was the Bond Market Update.

In response to a question from Senator Leeper, Donna Duncan replied that the Cabinet for Economic Development is still negotiating the terms of the grant agreement for NHK Spring Precision of America and that no funds have been released.

### **Follow-up Reports for Previously Approved Bond Issues**

Representative Glenn asked Brett Antle, Deputy Executive Director, Office of Financial Management, to present three items. Mr. Antle said the first item was the approval of \$367,295,000 of State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project Number 100. Proceeds from this bond issue will: (1) provide new money for \$110 million of projects authorized by the General Assembly from 2005 to 2010; (2) refund certain prior bonds at a \$17 million net present value savings; and (3) restructure approximately \$127 million of debt maturing in Fiscal Year (FY) 2012 for budgetary relief. The transaction priced on June 22 and closed on July 7, 2011. The all-in true interest cost was 3.68 percent. The bonds were sold on a negotiated basis with Citi serving as senior underwriter. Peck, Shaffer, and Williams served as bond counsel and Bank of New York Mellon is the trustee.

The second item was the approval of \$27,935,000 Murray State University General Receipts and General Receipts Refunding Bonds, Series A, B, and C. Proceeds from this bond issue will finance renovations to Elizabeth Hall and refund all of the university's outstanding Housing and Dining bonds. The bonds were sold on a competitive basis on June 22, 2011. The Series A and C bonds closed on July 12, and the Series B bonds closed on July 26, 2011. Baird purchased the Series A and C bonds and Hutchinson, Shockey, Erley, and Co. purchased the Series B bonds. The final maturity on the bonds is September 1, 2031, and the all-in true interest cost for the three series combined is 3.7 percent. The refunding component produced a present value savings of negative \$492,262. Hilliard Lyons served as financial advisor. Peck, Shaffer, and Williams served as bond counsel, and US Bank is the trustee.

The third item was the approval of \$5,090,000 of Morehead State University General Receipts Bonds, 2011 Series A. Proceeds from this bond issue will finance the renovation of East Mignon Residence Hall. The bonds were sold on a competitive basis on July 14 and closed on July 25, 2011. The final maturity on the bonds is November 1, 2030, with an all-in true interest cost of 3.97 percent. The bonds were purchased by Morgan Keegan. Hilliard Lyons served as financial advisor. Peck, Shaffer, and Williams served as bond counsel and US Bank is the trustee.

### **Unbudgeted Capital Projects from the Finance and Administration Cabinet**

Representative Glenn asked John Hicks, Deputy Director, Governor's Office of Policy Management, to present three items. Mr. Hicks said the first item was an unbudgeted capital project for the Department of Military Affairs (DMA) for the Weapons of Mass Destruction Building Parking Area Expansion at the Air Guard Base in Louisville. The project involves an approximately 2,800 square-foot expansion to an existing vehicle storage bay. The project scope is \$750,000 and will be paid entirely from federal funds.

In response to a question from Representative Wayne, Brian Simmons, Internal Policy Advisor, DMA, said that the Weapons of Mass Destruction Building deals with bio-terrorism.

In response to a question from Representative Wayne, Mr. Hicks explained that \$750,000 was the threshold below which the National Guard Bureau could make spending decisions without congressional action. Mr. Hicks noted that all three of the projects being submitted to the committee were included in DMA's capital plan.

Representative Wayne asked if the state procurement code has been followed for the DMA projects. Mr. Hicks responded affirmatively.

Senator Leeper made a motion to approve the project. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

The second item was an unbudgeted project for DMA for Modular Expansion at the Lexington National Guard Armory. The project would provide additional administrative supply and storage space for the fire brigade unit. The project scope is \$750,000 and will be paid entirely from federal funds.

Senator Leeper made a motion to approve the project. The motion was seconded by Senator Carpenter and passed unanimously by roll call vote.

The third item was an unbudgeted project for DMA to Construct CERF-P Facility at the Boone National Guard Center in Frankfort. The project involves constructing a 5,800 square-foot facility to house administrative, storage, and supply space for the Chemical, Biological, Radiological, and Nuclear Enhanced Response Force Package Unit at the center. The project scope is \$750,000 and will be paid entirely from federal funds.

Representative Rudy made a motion to approve the project. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

#### **Kentucky Infrastructure Authority (KIA) Fund A Loan Increase**

Representative Glenn asked Kasi White, Financial Analyst, KIA, to present a request for a loan increase to an outstanding Fund A loan. Ms. White said the City of Bowling Green is requesting a \$2,500,000 increase to its existing loan of \$51,735,960 to renovate and expand its wastewater treatment plant. The loan increase is necessary due to change orders and changes made to the project since its inception. The revised Fund A loan in the amount of \$54,235,960 will be provided at a 1 percent interest rate over a 20-year term. The estimated annual debt service payment on the total loan would be \$3,107,234. The loan increase was approved by the KIA executive director on July, 29, 2011.

In response to a question from Representative Glenn, Ms. White explained that the loan increase was due to several change orders, primarily related to expansion of the plant's bio-solid handling facility. Ms. White said the city contributed some local funds to the project to offset the cost and that this should be the last increase for the project.

In response to a question from Representative Wayne, Ms. White explained that any scope increase greater than 10 percent of the original loan commitment approved by the KIA Board of Directors must be considered by the board. Scope increases below that threshold may be approved by the KIA Executive Director.

In response to a question from Representative Wayne, Ms. White said that the board approved the first \$8,428,600 loan increase for the project. The second increase is below 10 percent of the combined loan amounts. She explained that the executive director provides a status of funds summary to the board at each board meeting. The executive director's report notes any loan increases that had not been approved by the board.

In response to a question from Representative Wayne, Ms. White said that the project's construction should be complete by January 2012.

Senator Leeper made a motion to approve the project. The motion was seconded by Senator Carpenter and passed unanimously by roll call vote.

#### **KIA Fund B Loan Increase**

Ms. White said the Whitley County Water District is requesting an \$84,800 increase to its existing loan of \$848,000 to upgrade 83,200 linear feet of water lines to underserved areas of the county. The cost of the rehabilitation work was greater than expected due to a higher percentage of meter settings that required total replacement. The revised Fund B loan in the amount of \$932,800 will be offered at a 0.6 percent interest rate over a 20-year term. The estimated annual debt service payment is \$51,430. The increase was approved by the executive director on July 18, 2011.

Senator Leeper made a motion to approve the project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

#### **KIA Fund B Loan**

Ms. White said the Crittenden-Livingston Water District is requesting a new Fund B loan in the amount of \$300,000. The funds will be used to replace the existing meters in Crittenden County with radio-read meters, which will reduce the amount of time required to read the meters and reduce operation and maintenance costs. The meter replacement project will affect 3,400 customers, which is approximately half the customer base of the district. The loan will be offered at a 2 percent interest rate over a 20-year term. The estimated annual debt service payment is \$18,873. The loan was approved by the KIA Board at its August 4, 2011, meeting.

Representative Rudy made a motion to approve the project. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

#### **KIA Coal and Tobacco Grants**

Ms. White indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. No further committee action was necessary.

#### **School Bond Issues**

Mr. Antle reported two school bond issues with School Facilities Construction Commission debt service participation. The first was for Beechwood Independent in an

estimated amount of \$7.095 million. The second was for East Bernstadt Independent in an estimated amount of \$8.37 million.

**Lease Report from the Finance and Administration Cabinet**

Representative Glenn asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to present a report of a lease modification under \$50,000 for the Cabinet for Health and Family Services in Franklin County (PR-3282). The lease modification involves the amortization of leasehold improvements, including the installation of mechanical key pads on two designated staff entrances and the conversion of three doors to exit-only doors. Two estimates were obtained for the work. The first estimate was \$2,572; the second estimate was \$4,598. The lower bid was selected. No committee action was necessary.

With there being no further business, Representative Glenn made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:35 p.m.